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U.S. Disputes Russian View On Stance of Bosnia Serbs

Reply to Peace Plan Was 'Disappointing,' Perry Says in Zagreb

Compiled by Our Staff From Dispatches

ZAGREB, Croatia — In an apparent sign of an emerging rift, the U.S. defense secretary, William J. Perry, disputed on Friday the Russian view that the Bosnian Serbs had given a "rather positive" response to the latest peace plan.

With the plan stalled, fighting flared in Bosnia on several fronts, United Nations officials reported.

Mr. Perry, in Zagreb for talks with NATO and UN peacekeeping commanders, said that the Serbs' reaction was "not a positive answer but a disappointing answer, and it is going to greatly complicate the path ahead."

But he said that the international community would take no new action over Bosnia-Herzegovina until after a July 30 meeting of the five-nation Contact Group that drafted the peace plan.

Foreign ministers from the plan's sponsoring countries — the United States, France, Britain, Germany and Russia — are to meet in Geneva that day to discuss the consequences of the Bosnian Serbs' refusal to back the partition plan.

The current proposal would give a Muslim-Croat federation 51 percent of Bosnia and leave the Serbs, who now hold about 70 percent, with 49 percent.

Mr. Perry, who aborted a trip to Sarajevo after shelling Thursday forced the airport's closure, also confirmed a possible lifting of the arms embargo for the benefit of Muslim-led Bosnian government forces.

A lifting of the embargo was one option under discussion if the Bosnian Serbs' rejection of the plan proved definitive, he said.

Prime Minister Haris Silajdzic of Bosnia, who met with Mr. Perry in Zagreb, stressed his government's continued "unconditional" support for the plan.

But asked if there was any way his side would negotiate with the Serbs over borders, Mr. Silajdzic said, "The answer is no."

The Serbs did not reject the partition plan outright but attached conditions that would require substantial renegotiation. The Muslims and Croats have accepted the

See BOSNIA, Page 4

Clinton Orders Airlift as UN Pleads for Help on Rwanda



With more than a million Rwandan refugees crowding into four makeshift camps in Goma, Zaire, disease and exhaustion are taking a severe toll.

In Refugee Camps, Scenes from the Inferno

By Barry James
International Herald Tribune

With cholera and other diseases spreading through Dantesque refugee camps on the border of Zaire, the UN secretary-general, Boutros Boutros Ghali, made a desperate appeal Friday for \$434 million in aid for Rwandans.

In four teeming refugee camps near Goma, people were dying of disease and exhaustion faster than aid workers could count them. Traffic jams of trucks carrying bodies built up on their way to mass graves.

People died starved over their faces to keep out the stench of corpses and excrement. Medical workers said cholera could kill thousands more because of the shortage of clean water and medical supplies.

Most people were surviving on slimy water collected from Lake Kivu, which is heavily polluted. The aid agencies were able to deliver only a fraction of the food needed, and the airport runway at Goma was breaking up as heavy transport planes arrived with supplies.

Mr. Boutros Ghali said the refugee exodus forced him to seek \$434 million for immediate humanitarian needs rather than the \$274 million initially estimated.

He said the tragedy was reaching "unimaginable proportions."

The secretary-general added that propaganda broadcasts by clandestine radio stations run by the exiled Rwandan government had fanned hatred and fear.

"Retreating soldiers have urged and forced whole populations to leave their homes and follow them into exile," he said. "In some cases, massacres have even been perpetrated deliberately in order to create situations of panic, chaos and fear."

There was no sign that the hatred was abating. Tutsi refugees in Zaire, who fled earlier to escape the Hutu massacre of up to 500,000 of their fellow tribespeople and moderate Hutu, said they were terrified of

See RWANDA, Page 4

U.S. Military Opens 'Race Against Time'

By John H. Cushman Jr.
New York Times Service

WASHINGTON — President Bill Clinton ordered the Pentagon on Friday to mount an enormous, urgent airlift of relief supplies into Africa in an attempt to control the catastrophe facing more than a million refugees from Rwanda.

The relief mission was described by the chairman of the Joint Chiefs of Staff, General John M. Shalikashvili, as a race against time, but with every minute tolling another death at the cholera-infested camps in Zaire, officials said it would take several days for the operation to reach its height.

"We're going to be doing everything we can, but there is going to be a time lag here," said J. Brian Atwood, head of the U.S. Agency for International Development.

Mr. Clinton, calling the crisis possibly "the world's worst humanitarian crisis in a generation," defended American relief efforts so far. "From the beginning of this tragedy, the United States has been in the forefront of the international community's response," he said.

Officials said that 20 million packages of oral rehydration salts, the first-aid treatment for cholera victims, would be delivered within two days, with other food and

French officials say it's the rest of the world's turn to act in the Rwandan crisis. Page 4.

U.S. and North Korea Set Aug. 5 for Nuclear Talks

By R. Jeffrey Smith
Washington Post Service

WASHINGTON — U.S. and North Korean officials will resume high-level diplomatic negotiations on nuclear and political matters in Geneva on Aug. 5, slightly later than the Clinton administration had preferred.

The date was set at a working-level meeting in New York on Thursday, a development hailed by U.S. officials as a sign that North Korea, despite the death of President Kim Il Sung, remains committed to resolving Western allegations that it is building an arsenal of nuclear weapons. The late North Korean president had personally approved the talks, but his death raised questions about how quickly they might resume.

The Geneva talks were suspended on July 9 after only one day so that the chief North Korean negotiator, Kang Sok Ju, could return to Pyongyang for the funeral. The session did not produce breakthroughs on any aspect of Washington's demand that North Korea eliminate its nuclear capability, but U.S. officials remained optimistic.

The United States is offering diplomatic and economic concessions to the North Koreans, including assistance in shifting to the less threatening light-water nuclear technology.

Speaking of the agreement to resume negotiations, a U.S. government analyst said, "This is not a surprise."

The analyst said senior North Korean officials had given every indication from the moment of the announcement of Mr. Kim's death that they were interested in resuming negotiations with Washington.

The analyst noted that the official North Korean media, which has long been filled with anti-U.S. diatribe, has "clearly avoided criticism" of the United States since the leader's death. Instead, it gave prominent play to President Bill Clinton's message of condolence as a "signal to their own people that engagement with the United States is the policy," the analyst said.

The North Korean announcement Friday that the two sides had set a date for



ASEAN WELCOME — The Thai deputy foreign minister, Surin Pitsuwan, left; the Burmese foreign minister, U Oin Gyaw, and the Cambodian foreign minister, Prince Norodom Sirivuth, right, at ASEAN talks. Page 4.

Islamic Group Claims Argentine Bombing

BUENOS AIRES — An Islamic group called Followers of God claimed responsibility for the bombing of a Jewish center in Buenos Aires on Monday in which 100 people are dead or missing, an Argentine security officer said Friday.

Israeli intelligence services informed Buenos Aires of the claim by the group, which was based in southern Lebanon.

Argentines protest the attack. Page 3.

Book Review		Page 7.	
Dow Jones		Trib Index	
Up	2.59	Down	0.05%
3735.04		113.23	
The Dollar		The Dollar	
New York	1.598	Previous close	1.598
DM	1.5276		1.524
Pound	98.95		99.15
Yen	5.48		5.435

From 'A' to 'Gytech': 1,006 Pages of Nothing but Slang

By Ken Ringle
Washington Post Service

WASHINGTON — Jonathan E. Lighter wears the wry, dyspeptic look of a python digesting what he thought was another snake, but discovered too late was the front end of an elephant.

The 45-year-old lexicographer has just presented the National Endowment of the Humanities with 1,006 pages of his just-published Random House Historical Dictionary of American Slang. That's the first of three volumes. He's been working on it for more than 25 years.

If he had spent the same amount of time and effort writing "explosive best-sellers" detailing the exploits of Hollywood celebrities," Mr. Lighter mused, "who knows? Wealth, fame, perhaps even tenure might have all been mine."

Instead he pursued a youthful obsession with nonstandard English usage into the mirror-world of meanings, trying to track down and define slang expressions used over the past three centuries.

If you believe language is organic and ever changing, he said, "how do you really know what a word means, especially when someone else is saying it?"

In the end, he suggested, even the most exhaustive scholarship comes to depend on "a flash of direct, intuitive insight."

His 20,000-odd published insights ex-

See SLANG, Page 4

Praise the Wayside Pulpit! Road to Heaven or Hell Is Well Posted

By Peter Applebome
New York Times Service

LITTLE ROCK, Arkansas — Consider the church sign — highway bait for the Bible Belt.

The message may be hard sell. ("In Order to Get to Hell You Have to Step Over Jesus"), welcoming ("Free Faith Lifts Every Sunday") or the Gospel According to Nashville ("Let Jesus Fix Your Achy Breaky Heart").

It can be inspirational ("No Jesus No Love, Know Jesus Know Love"), folksy ("Don't Be a Boo-Bird in God's Flock of Team Players") or informative ("Heaven's Directions — Turn Right, Go Straight").

But in a region where public displays of faith are as much a part of the landscape as anti-Clinton bumper stickers and bar-

cue joints, roadside religion is as Southern as Alabama-Auburn football or hot cornbread.

"They're sort of like urban rumors or something," said David Ward, pastor and church sign tender at the Unity Missionary Baptist Church here. "They just sort of pass around."

The church sign can be an internally lighted sign with a big yellow cross like the one at Mr. Ward's church. It can be a mobile highway road sign with an arrow pointing to the church like the one Betty Yon, the church secretary, changes every week at the Pineview Baptist Church in West Columbia, South Carolina.

Or it can even be an electronic message board like the one at Peachtree Baptist Church in Atlanta, which recently read, "Being Born Again Means Being Plugged Into a New Power Source."

All that matters is that the letters can be rearranged as often as needed to spread the Good Word in the competition to recruit bodies and save souls that is religion in the South.

"We use it as a sort of wayside pulpit," said Perry Ginn, pastor of Peachtree Baptist Church in Atlanta.

Southern churches are hardly the only ones that use signs to do more than give the time for Sunday services, the preacher's name and the sermon topic. Roger Lovell, vice president of the J.M. Stewart Corp., the nation's largest purveyor of church signs, says he has customers from Hawaii to Iceland catering to "drive-by congregations."

But just as an English visitor, Sir William Archer, opined at the beginning of the century: "The South is by a long way the most simply and sincerely religious country that I ever was in," religion has always helped define what is distinctive about the South.

Even now, religion is far more conspicuous a part of life in the South than it is anywhere else in the United States. According to a poll of 1,839 adults this year conducted by the Institute for Research in Social Science at the University of North Carolina for The Atlanta Journal-Constitution, almost half of Southerners say this is a Christian country and the government should make laws to keep it that way.

Only a third of those outside the South say so. Asked if there's a devil, four of five Southerners and three of four non-Southerners said yes. Asked if they read the Bible at home in the past week, half of the Southerners and a third of the non-Southerners said yes.

In addition, the fundamentalist and evangelical Christian congregations that dominate the South are far more likely to spread the Word on a sign that could just as well advertise "Sherry's Bait and Tackle" than are the Mainline Protestant or Catholic churches that are more common in other parts of the country.

Your basic church sign message bews pretty closely to what the pastor might say in his sermon. There are Ten Commandments church signs like "God Gave Ten

See SOUTH, Page 4

Newsstand Prices	
Andorra.....9.00 FF	Luxembourg 60 L Fr
Antilles.....11.20 FF	Morocco.....12 Dh
Cameroon.....1.400 CFA	Qatar.....8.00 Rials
Egypt.....E.P. 5.000	Reunion.....11.20 FF
France.....9.00 FF	Saudi Arabia.....9.00 R
Gabon.....300 CFA	Senegal.....200 CFA
Greece.....2.000 Lire	Spain.....200 PTAS
Italy.....2.000 Lire	Tunisia.....1.000 Din
Ivory Coast.....1.100 CFA	Turkey.....T.L. 35.000
Jordan.....1 JD	U.A.E.....8.50 Dirh
Lebanon.....US\$ 1.50	U.S. Mil. (Eur.) \$1.10

Friday's 4 p.m.
This list compiled by the AP, consists of the 1,000 most traded securities in terms of dollar value. It is updated twice a year.

AMEX
Friday's Closing
Tables include the nationwide prices up to the closing on Wall Street and do not reflect state trades elsewhere. *Via The Associated Press*

[illegible][illegible]

Month	High	Low	Stock	DIV	Yld	PE	Size	High	Low	Latest	OTC
Jan	100	95	Common	5.00	7.4	12	100	100	95	100	100
Feb	100	95	Common	5.00	7.4	12	100	100	95	100	100
Mar	100	95	Common	5.00	7.4	12	100	100	95	100	100
Apr	100	95	Common	5.00	7.4	12	100	100	95	100	100
May	100	95	Common	5.00	7.4	12	100	100	95	100	100
Jun	100	95	Common	5.00	7.4	12	100	100	95	100	100
Jul	100	95	Common	5.00	7.4	12	100	100	95	100	100
Aug	100	95	Common	5.00	7.4	12	100	100	95	100	100
Sep	100	95	Common	5.00	7.4	12	100	100	95	100	100
Oct	100	95	Common	5.00	7.4	12	100	100	95	100	100
Nov	100	95	Common	5.00	7.4	12	100	100	95	100	100
Dec	100	95	Common	5.00	7.4	12	100	100	95	100	100
Jan	100	95	Common	5.00	7.4	12	100	100	95	100	100
Feb	100	95	Common	5.00	7.4	12	100	100	95	100	100
Mar	100	95	Common	5.00	7.4	12	100	100	95	100	100
Apr	100	95	Common	5.00	7.4	12	100	100	95	100	100
May	100	95	Common	5.00	7.4	12	100	100	95	100	100
Jun	100	95	Common	5.00	7.4	12	100	100	95	100	100
Jul											

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Herald Tribune

THE MONEY REPORT

FIRST COLUMN

You Are What You Dare to Risk

YOU are 46 years old, married and in full- or part-time employment. Your income is \$50,000 per annum, a reasonable compensation for the degree you spent four years or more at college to obtain. You are, as you have probably guessed by now, a statistic.

More precisely, you are a typical fund investor—a refugee from the pages of the new fact book published by the U.S. mutual fund industry's representative body, the Investment Company Institute (ICI).

While data dumping of the "most common characteristic" variety renders the ICI's new missive far from a compulsive page turner, the book provides clearly written and useful information about the state of today's fund industry.

Easily the most interesting chapter is "Shareholder Perceptions of Investment Risk." The ICI conducted its own survey into investors' attitudes regarding the risks inherent in mutual fund investing, and it is pioneering research. Indeed, although regulators require all kinds of warnings to be slapped on investment literature, it seems that few investors really pay attention to that bald statement—"Investment values may go down as well as up"—until they see their own investment begin to go down.

The ICI survey essentially classifies investors by the amount of money they are prepared to lose. It reveals that 16 percent of fund investors are of the "daring independent" type. They are risk-oriented and more likely to invest in shares than bonds. A further 16 percent are daring, but only with money they are prepared to lose.

The biggest single group (29 percent) of investors is "conservative disinterested." These people do not consider playing the stock market exciting, but are more share-bond-oriented because their primary objective is long-term capital gain. It is, in our view, these people who are the most likely to get rich.

M.B.

Have Bond Markets Bottomed Out?

By Iain Jenkins

OVER the past six months, bond investors have been battered and bruised by the market's steep fall. Few things like it have been seen since the oil price shocks of the 1960s. But for the first time since February, an upturn in prices is causing a new note of optimism to creep into the market.

Behind the rally is a ferocious battle for the "hearts and minds" of the investment community. In one corner are the "bears," who say that inflation, which initially spooked the market, is nowhere to be seen. In the other are the "bulls," who see inflation lurking behind every number.

Buying in recent weeks has been nervous. Bond investors no longer know who or what to believe. They don't want to miss the bottom of the market but, equally, they don't want to get sucked into a "bear market rally" which will collapse again in a few weeks time.

Terence Pridaux, director of Kemper Investment Management in London, is convinced that the rally is part of a reassertion of fundamentals. He believes bonds have become cheap. "It makes me angry when I hear people pointing to inflation as the explanation for the bond market falls. Where is this inflation? Economists can't find any," he says.

Mr. Pridaux pointed to consensus economic forecasts, which have been revised in recent weeks, and which show little or no pick-up in inflation, to defend his view.

North American inflation is expected to stay unchanged at 3.2 percent for 1995, while European inflation is expected to come down by 0.1 percent to 2.9 percent, analysts say. Only Asian inflation is expected to increase slightly.

But Nick Knight, market strategist at Nomura International in London, warns: "Don't get sucked into false optimism."

"There is no hurry to buy bonds," he said. "The best strategy is to sell into market rallies. We are now in a bear phase where there are rallies, but they are to be sold into, not sucked into. However, rallies can go on for some time which is worrying for the bear."

Essentially, the inflation argument is that as growth picks up, inflation will follow in its footsteps. Then, governments will be forced to raise interest rates to combat rising prices.

Indeed, it was signs of rapid economic growth in the United States earlier this year, followed by the early-February rise

in interest rates that prompted the bond market collapse.

Since then, better-than-expected growth from Germany and a steady rise in commodity prices have helped stoke the fire. Headlines about Brazilian coffee harvests and soaring coffee prices have added to the mood of fear that commodity prices might also drive inflation higher.

The results for anyone owning bonds or fixed-income mutual funds have been frightening. Total return since the beginning of the year in local currency terms are negative in virtually all markets. Britain is down 12.6 percent, Canada 10.56 percent, Ireland 9.61 percent and the United States 4.95 percent.

But Alison Cottrell, an economist at Midland Global Markets in London, doesn't buy the inflation argument: "Big upturns in inflation usually come from major outside events like an oil price shock or a currency halving in value," she said. "Soaring coffee prices aren't it."

"The rot seems to have stopped as long as nothing goes wrong with U.S. Treasury yields," Miss Cottrell continued. "However, the investor is still cautious about going into the market. It takes a lot of courage. So far this year, the best policy has been to sit on your hands and do nothing."

Key to a recovery in world bonds is the United States. The pattern has been for European, Japanese and emerging-market bonds to exaggerate the trend of U.S. Treasury. Only in the past few weeks has the European market shown any signs of decoupling. However, this link could reassert itself if any surprises in U.S. inflation or monetary policy are around the corner.

Nick Stamenkovic, an economist at DKB International, the Japanese bank, thinks that the shocks are over. "If we do see the U.S. Treasury market stabilize, then bond yields will fall in Europe," he said. "There will be a rally in second half of the year, but it won't get to the level we saw in January."

Equally, monetary policy is unlikely to cause a surprise. The market is already discounting a further rise in U.S. interest rates by 25 basis points. A move by the Federal Reserve is expected some time in

International Bonds

Page 15 Hard times in emerging markets

The renaissance of junk

Nordic countries in crisis

Page 17 The synthetic route

Fund vs. direct investment

August, but few believe it will spark off another bond market sell-off.

Kevin Gardner, an economist at Morgan Stanley in London, sees some upturn in inflation but says it will not be much: "Investors are still likely to remain nervous until they are confident about the size of the upturn. Because of recent history, they won't take anything on trust."

Mr. Gardner also said that the main argument against bonds is "the high return on physical capital." This is the return that companies can get from their assets. It is expected to reach levels not seen since the 1960's in many developed economies, which should boost dividends.

"The economic environment is telling you to buy equities over bonds," he added.

But once again the "bears" have a counter-argument. They expect the bond market crash and the rise in interest rates to slow the pace of economic recovery. This could dampen any limited signs of inflation, which in turn could give bonds a much needed fillip.

"The excitement of the liquidity-driven bond buying frenzy last year had the effect of bringing forward growth," said Mr. Pridaux, at Kemper. "Now the increase in interest rates may bring about a small surprise on the downside by shaving growth."

Mr. Pridaux said the best value for U.S. dollar investors is in Australia, Canada, New Zealand, Ireland and Finland. Japanese and German bonds, he said, look unattractive because of the weak dollar.

Another option for the dollar investor is emerging-market bonds. Marc Wenhamer, director of fixed income at fund managers Foreign & Colonial in London, says: "A lot of non-traditional emerging market investors came into the market last year. They bought an overly optimistic story. When things went wrong they overreacted and de-leveraged. Now, there is some good value out there."

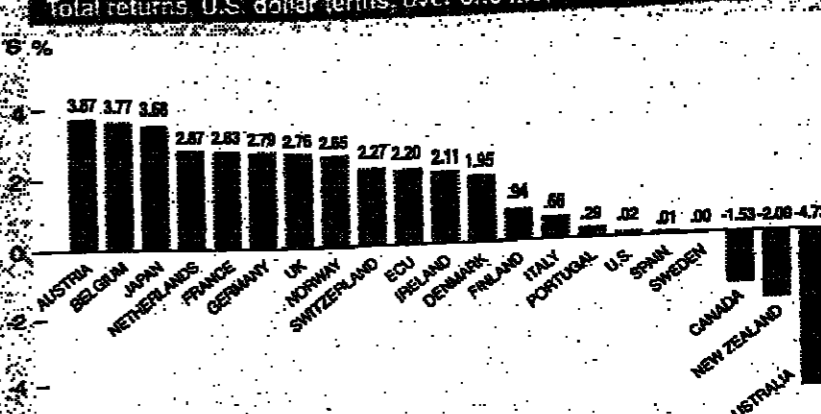
For the non-dollar investor, the best bets may be "core" European countries such as Germany, France and Holland. "There is still a lot of uncertainty, but the key is to buy markets that look out of synch with their fundamentals, such as Germany," said Nigel Richardson, head of bond research at Yamaichi International.

"Overall," continued Mr. Richardson, "fundamentals are beginning to reassert themselves. At some stage, the rally may run into profit-taking, but reality does at last seem to be settling in."

That view is shared by more and more analysts, which suggests that the worst for global bond markets may be over.

World Bond Markets

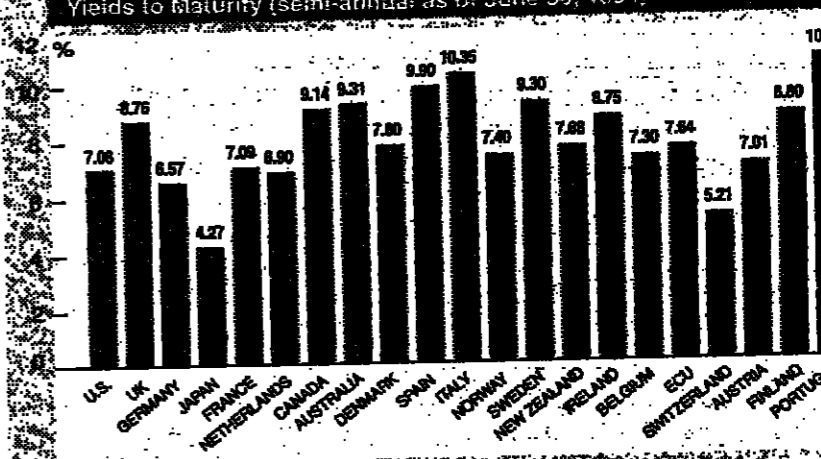
Total returns, U.S. dollar terms, over one month to June 30, 1994



Total returns, local currency terms, over one month to June 30, 1994



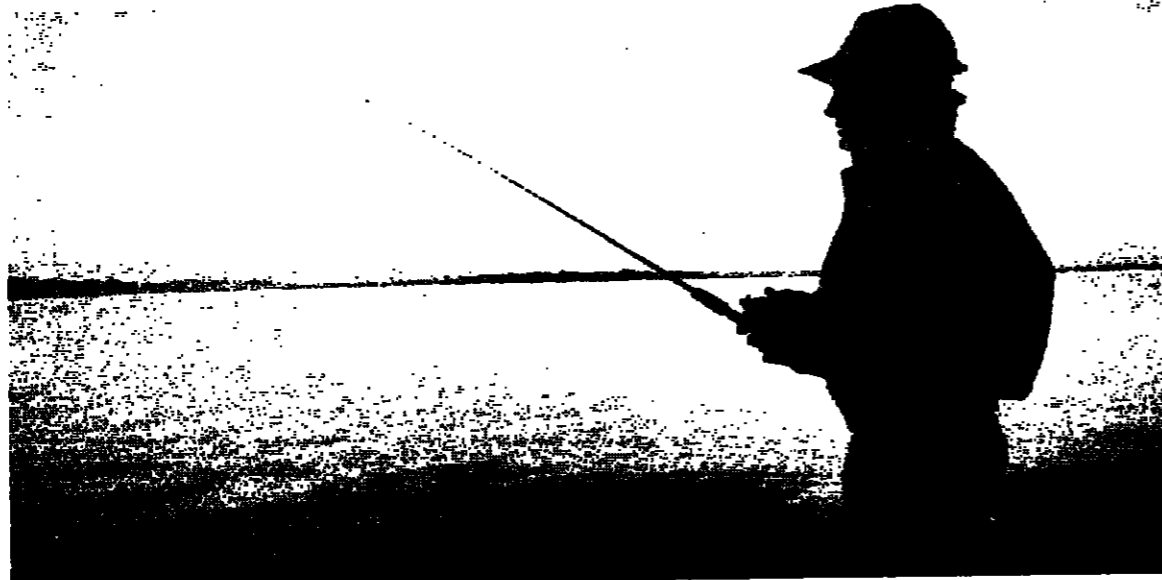
Yields to maturity (semi-annual as of June 30, 1994)



Source: Kemper Investment Management



don't let the big one get away



As any wise and experienced fisherman will know, the fishing game is a waiting game. Selecting the right time of day and conditions, or even the best lures is all well and good but as he'll tell you, you may wait all day for that crucial moment to strike and when it finally comes, can you be safe in the knowledge that there's no chance of that big one getting away?

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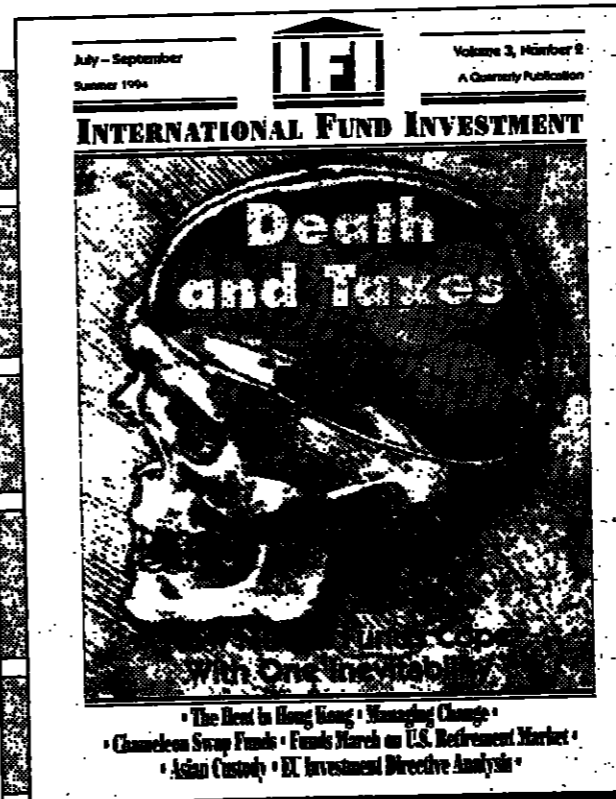
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Not Communicated; N.S. - New Zealand dollars; S - Swedish Kronor; £ - British Pound Sterling; \$ - Other Currencies; % - Percent
* Incomplete earlier; ** registered with regulatory authority; P - Made of bid and offered prices. E estimated price. If price calculated 3 days prior to publication, no bid or offer.

Partition Plan

board ships to enforce an
the Serb-led rump state of

(Reuters, AFP, AP)

THE MONEY REPORT

With Structured Bonds, Derivatives Come in Fixed-Income Wrappers

By Digby Lerner

AT FIRST glance, structured bonds appear the same as any other bond. The investor's aim is to protect principle and receive regular income, although things don't always turn out that way.

The similarity ends there, however. Unlike their relatively conservative cousins, structured bonds are firmly rooted in the highly-leveraged derivatives market.

This means they can be put to a variety of investment uses—from hedging against losses to gearing up risk.

Although now finding favor with private investors, structured bonds were originally designed to protect corporate investors against adverse movements in financing costs. If a corporation needed to protect a loan against a possible rise in interest rates,

for example, a bank or finance company would be called upon to structure a bond whose income grew when interest rates rose.

Structured bonds can also be used to cover commodities. A corporation sensitive to the cost of, say, oil or coffee, will use a structured bond to avoid being hurt by future price movements.

Paul van der Maas, head of the structured derivatives department at Nomura International in London, says that, in their most basic form, structured bonds simply use the cash from standard fixed-income securities to gain exposure to highly geared derivatives.

"This involves laying out more money than going directly into derivatives, but it cuts the risk," he said.

Not surprisingly, the growing awareness among investors of the different ways derivatives can be used is encouraging them to use structured bonds for speculation

rather than purely for risk management. Their big attraction is that they can be tailored to cover almost any view an investor takes of the market, Mr. van der Maas said.

"If you think the CAC-40 is going to go up, or that the difference between the CAC and the DAX will drop, you can structure a bond that performs when that happens," he said. This flexibility is by no means limited to stock markets either.

When equity and bond markets become difficult to gauge, as they are currently, the temptation for investors to look to other, sometimes more predictable markets, increases. An investor might be unable to guess whether the Dow Jones Industrial Average is set to rise or fall, for example, but he might have a hunch that coffee prices are about to increase. A structured bond can be created to cover this.

Robin Baldwin, managing director of

London Bond Broking, says that although demand for structured bonds is increasing, fashions for particular types of bonds change very quickly.

"When the gold price goes through one of its periodic upturns, you suddenly find bonds appearing to cover it," he says.

As with all derivatives-based products, the high gearing of structured bonds can quickly turn handsome profits into huge losses. But surprisingly, as the volume of trading in bonds and equities has fallen because markets have become less certain, structured bond business is still growing. This is mainly because they can be adapted to suit most market views, whether they are bullish, bearish or simply flat.

Whereas investors were using structured bonds speculatively last year, they are now using them defensively, said Mr. van der Maas.

"Last year it seemed clear that interest

rates were going to move down," he said. "That happened to an extent. But where interest rates went up, some investors showed losses. Since then, the type of business rather than the quantity of sales has changed. People are less keen to take chances. Whereas before they were prepared to risk their principle, now they want to protect it."

Some analysts are surprised by the growing popularity of structured bonds and are skeptical about their possible benefits. They say the bond "wrapping" is aimed at encouraging cautious investors into entering highly-leveraged markets which they might otherwise avoid.

One analyst, who insisted on anonymity, said that structured bonds are an expensive way of buying derivatives and that investors would be better off taking a more direct route into the market. Others insist that structured bonds have two distinct advantages.

The first benefit, according to that view, is administration. Banks and investment houses dealing in structured bonds are able to monitor the market constantly—something that even sophisticated retail investors may not have time to do. Secondly, in cases where the original investment is guaranteed, the bond wrapping shifts the risk from the investor to the bond issuer.

As structured bonds are put to yet wider uses, however, one cloud on their horizon is the threat of new rules governing the way derivatives are managed. A number of huge losses made by the treasury departments of large corporations in recent years has raised fears that many investors are taking risks in this complex market without fully understanding what they are doing.

Analysts warn individual investors to educate themselves on the nuts and bolts of derivatives, as well as on their many nuances, before entering the structured bond market.

To 'Fund' or not to 'Fund': That's the Bond Investor's Question

By Michael D. McNickle

ONCE upon a time, before there were mutual funds, wise people squirreled away their savings in stocks, bonds, gold and cash. Now, say some market analysts, the kind of returns that fueled the explosion of mutual funds in the first place may be a thing of the past.

Indeed, some investors wonder whether they might do better on their own, the old-fashioned way. Only now it's called asset allocation, and the game has changed.

Picking a good investment-grade bond 30 years ago was relatively simple. Today, there are scores of hybrid and derivative bonds. Some, of course, are safer than others. But is it better to let a fund manager sort it out, or to go it alone?

Investors smarting from the lackluster performance of U.S. bond funds over the past six months may be ready to give up on them. Not so fast, say some experienced market watchers. While there may be attractive individual bonds to be had, they say, such plays do not offer many of the same advantages as a mutual fund.

Frank X. Curzio, president of the Queens, New York-based F.X.C. Investors Corp. newsletter, has his eye on about 50 bonds right now. But he warns that individuals investing in bonds face many pitfalls.

"We liquidated our portfolio last September, because we saw these higher interest rates coming through," he said. "And right now, there are some decent individual bonds. But it's not really the way to go for the individual investor—at this time, or at any time."

"You're better off going with the bond mutual funds. The reason is that they give you better diversification."

For one thing, trading costs may be prohibitive for individual investors. Mr. Curzio said that each bond purchased can cost between \$10 and \$20 in broker commissions. Meanwhile, other observers note, individual bonds may not be as liquid as mutual fund shares.

Anthony Jiorle, a vice president and quantitative analyst for the Vanguard Group, said that the average retail investor may not understand some of the arcana of bond markets, such as how to weigh yield against risk, and how to gauge risk in the first place.

Municipal bonds, because of their tax benefits, are another investment that retail investors who are disenchanted with bond funds might find alluring. But those looking into individual "muni" bonds would do well to read the fine print, warn some observers.

"This is classic," noted Mr. Jiorle. "People will go out and buy 10- or 20-year municipal bonds because they want to lock in a nice rate, but they never

pay attention to the fact that the bond is callable."

Callable bonds enable the issuer to call them in—or, pay off the debt—after a certain number of years has passed. When interest rates fall, issuers of callable bonds often choose this option and then issue new bonds at a lower rate.

In a scenario like this, Mr. Jiorle said, the investor sometimes winds up holding the bond only for two or three years. Then, when the bond is called, he or she has to reinvest the money at lower rates.

Individuals looking to time the bond market may not fare much better. Mark Hulbert, president of the Alexandria, Virginia-based Hulbert Financial Digest, which tracks the performance of investment newsletters, notes that the products he monitors haven't had much luck in timing the bond markets over any lengthy period.

"What's interesting, actually, is that none, if you look at them on a pure timing basis, none of them has added value," he said. "On the whole, bond market timing hasn't really worked."

So, what's a disillusioned bond fund investor to do? Despite all the pitfalls, analysts say, there can be some advantages to owning individual bonds in certain situations.

An analysis by Mr. Jiorle several years ago found that over a period of five years, individual bonds beat bond mutual funds

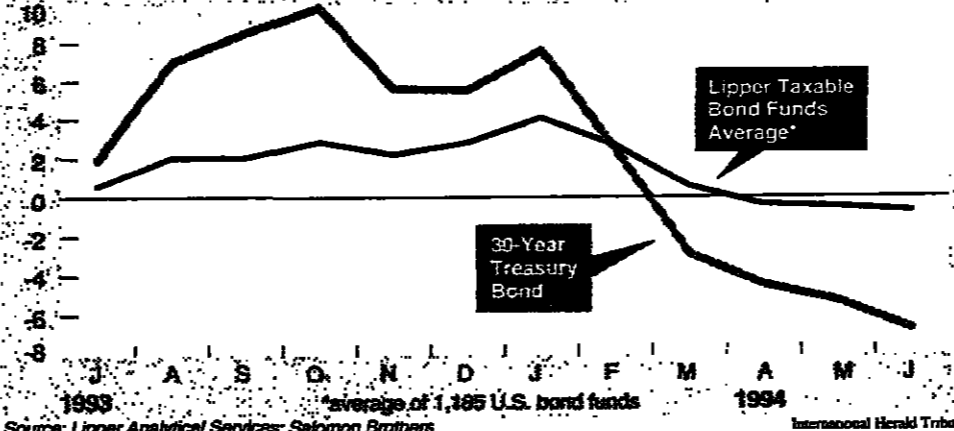
by roughly 1.5 percentage points annually when interest rates were higher at the end of the period than when it began. The exact gain depended on the nature and timing of the interest rate increase.

Mr. Jiorle noted that an individual bond holder who holds the issue to maturity gets the interest income, and full face value of the bond. Fund managers, on the other hand, often roll over the bonds in the portfolio before maturity, thus foregoing the maturity value.

On the other hand, when interest rates are lower at the end of the period, the bond funds do better than the individual bonds. One study noted that in

Bond Mutual Funds Versus the 30-Year Treasury Bond

Cumulative total returns in percent, June 30, '88 through June 30, '94.



Source: Lipper Analytical Services; Salomon Brothers

A Familiar Investment, But What Is It, Really?

By Martin Baker

BONDS are the financial equivalent of a major food group. Without them, many individual investors feel that they aren't getting a balanced investment diet. But what are bonds?

They are bought and sold in their millions, but small investors and readers are constantly asking for basic information on these securities—often after they have already committed capital to them.

Leaving aside direct investments in bonds, the market in pooled investments through the medium of mutual funds is huge. According to statistics produced by DWS, the mutual fund arm of Deutsche Bank, bond funds, including short-term bond and money market funds, accounted for more than half of the 2.16 trillion Deutsche mark (\$1.38 trillion) European mutual fund market at the end of 1993. Bond funds made up more than a third of the U.S. fund market, and nearly 40 percent of the Japanese fund market.

Clearly, small investors, who are the most common users of mutual funds, like bonds. But equally evident, there is confusion in the minds of some investors who, reasonably enough, imagine that entities such as

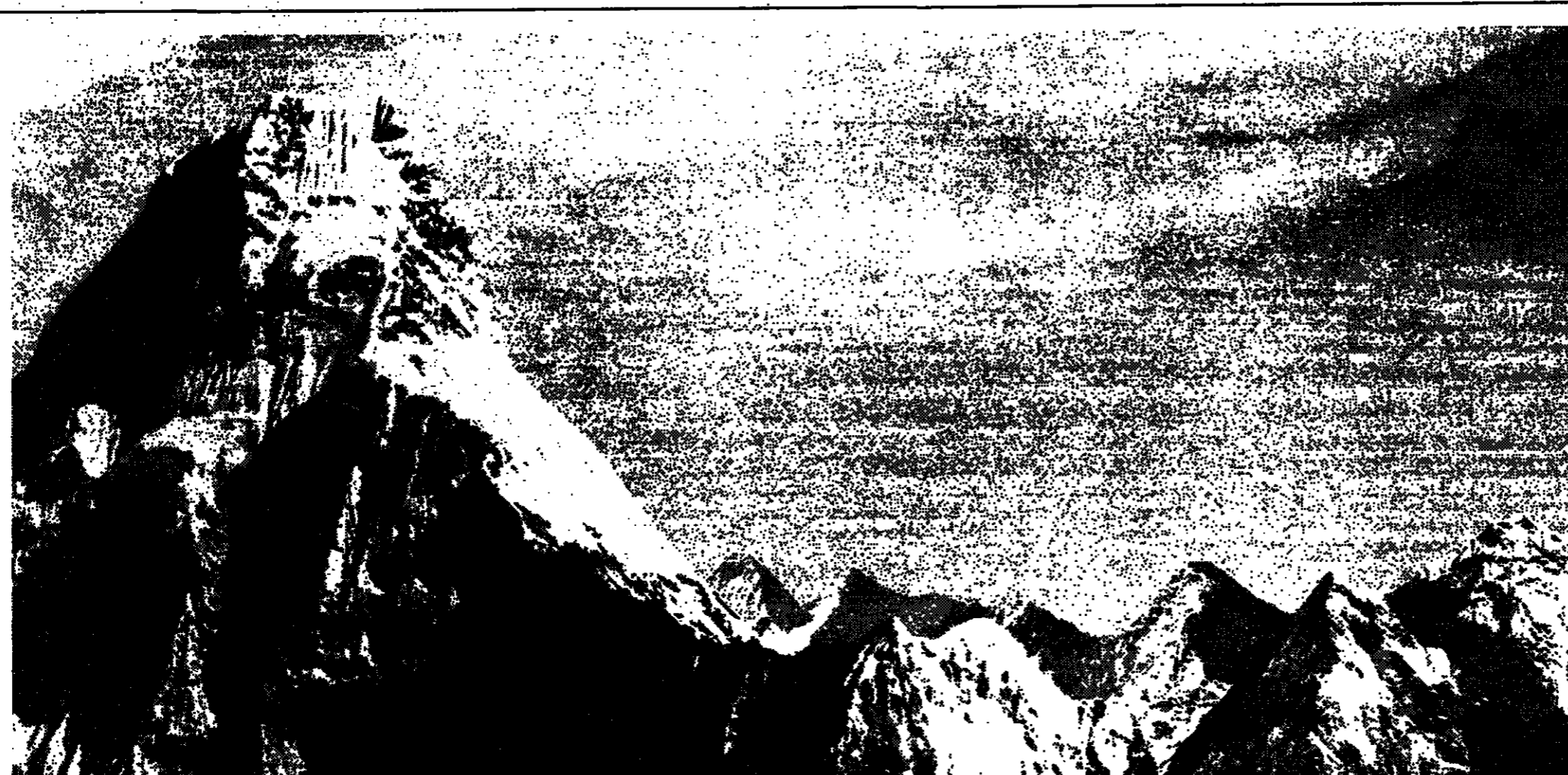
"guaranteed bonds" and "high income bonds" are really, in fact, bonds.

So, let's set the record straight. "Real" bonds are issued by corporations or governments. They typically offer a stream of income for a period of years. The income is usually set at a fixed level. What varies is the price at which you buy the income stream. Some analysts like to divide the cost of buying the bond by the price and call it the yield. This they compare to interest rates on bank deposit accounts and other investment media competing for our money.

"Guaranteed" bonds are usually mutual funds that invest in derivatives contracts, promising that investors' capital will be returned after a number of years. Investor confusion about the difference between a bond and a fund using derivatives calling itself a bond has been heightened by the recent trend for new fund launches to be sold to traditional bond investors. The managers are seeking to tap the liquidity of the huge bond market.

"High Income" and other such names are just that—names invented by marketing people to persuade investors that they are buying something that has the relative solidity of a bond.

Caveat emptor.



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Asian Growth	1	38	7
Far Eastern Growth	1	22	4
Japanese Growth	4	93	—
European Growth	6	23	17
UK Growth	1	31	1
Global Bond	18	147	—
Asia Pacific Markets	8	91	—

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